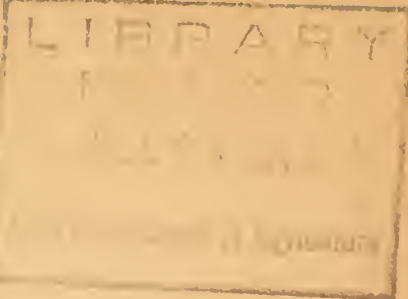


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WARTIME QUOTATIONS ON DAIRY AND POULTRY PRODUCTS

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Wartime conditions have introduced numerous changes in the nature of market quotations and have created new problems for those who use them. Old, well-established series of market prices have been interrupted or discontinued, and new types of price information have appeared as a result of price ceilings, fixed mark-ups for different classes of distributors, subsidy plans, roll-backs, and other war measures. The purpose of this statement is to discuss these changes, so that those who are interested may compare the old and the new types of price data.

Obviously, a new problem in reporting market prices was faced as dealers in terminal markets adjusted their business to new Government regulations. There was increased difficulty in maintaining adequate coverage, in securing complete and accurate pictures of current price situations, and in reporting prices on a continuously uniform basis. In general, supply situations at the beginning of price control were such that prevailing prices equaled the maximums permitted by regulations of the Office of Price Administration or, in occasional cases, exceeded them. When the latter occurred, it was because dealers for one reason or another did not adhere to maximum price regulations, and if it was impossible in such instances to obtain accurate price information from sellers or buyers, actual market values were not reflected by published price statistics. Market reporting has been further complicated as the result of certain devices which here and there have crept into the picture. Under such decrees, recorded selling prices were within legal limits, but net unit values of goods were distorted by up-grading, up-weighting, or other means. Price information is still collected on the basis of voluntary trade cooperation, and although this method may be questioned by some as being impractical under such conditions as those mentioned, nevertheless, it is doubtful whether even a system of compulsory price reports from dealers would have resulted in actually securing more accurate price information than that which was assembled.

Types of Market Price Information

Types of prices which apply in the larger terminal markets include the following:

1. F.o.b. Prices: These are receivers' buying prices for products bought on a net delivered basis.
2. Wholesale Prices: These are selling prices in the market proper of quantities which according to local custom constitute wholesale business. In the past, wholesale business was classified under at least two separate categories.
  - (a) Open Market Sales: This type of business included goods which upon arrival had no regular outlet, and were sold on the open market at the highest price obtainable from competitive buyers.



(b) Sales of Special or Premium Marks: This type of business included goods which upon arrival in the past were either earmarked for sale in regular, established outlets, or which, because of the known quality or uniformity of special marks, moved readily in numerous outlets at mark-ups over some published wholesale quotation.

3. Jobbing Prices: This type of business includes smaller sized lots sold to retail distributors or other small lot buyers, and usually includes additional services, such as packaging, extension of credit, and delivery service.

4. Retail Prices: These are prices paid by the ultimate consumer who buys at a retail store. They cover a wide range, depending upon quality; brands, type of store, location of store, and other factors.

F.o.b. Prices: The tendency during more recent years has been to emphasize f.o.b. prices. These cannot be reported, however, unless market reporters are able to obtain information from receivers as to definite prices paid, f.o.b. market. This type of business is more common with respect to eggs and live poultry than butter and cheese. Prior to price control, the more prevalent practice in settling for the latter products was to base prices on some wholesale quotation by using an agreed relationship or differential. When this was done, the f.o.b. cost was not determined in terms of actual dollars and cents until after the wholesale quotations became available. From the shipper's viewpoint, f.o.b. price information has a direct value, perhaps more so than wholesale price information, because it is an indication of the value of the product he sells, where he sells it. But, despite any apparent advantage of f.o.b. price information, the possibility of providing it depends upon the nature of market buying practices.

Wholesale Prices: This was the type of price information most commonly available in published form prior to the present war. When business on a commission basis was a common practice, the first tangible price information a reporter could obtain related to the first sale in the market. Shippers' returns represented the gross amount of the sale, less a deduction to cover an agreed handling charge, the latter referred to as a commission. Shown on the shippers' invoice was the quantity of the product, the selling price, the total amount of sale, the freight, the dealer's commission in terms of dollars and cents, and the net amount due the shipper. No net f.o.b. unit price per pound or per dozen was shown. What happened under such conditions was that reporting agencies published information regarding the first wholesale sale in the market.

In addition to the availability of wholesale price information, the reporting of prices on that basis originally had an advantage in that market reporters could obtain information covering a relatively large volume from relatively few sources, and from a class of distributors and at a point where there was a closer measure of price-quality relationships than elsewhere in the marketing process. However, the practice of settling with shippers at some agreed differential in relation to a designated wholesale quotation developed on such a widespread scale that the volume of open transactions narrowed to a point where it represented a small percentage only of the total product reaching markets. Shippers having selling connections with certain distributive outlets were given varying premiums over the quotations, which was possible because



their particular products bypassed wholesale trading, and went directly to jobbing or retail outlets, or because they possessed known characteristics aside from grade which caused them to sell more readily in the market than other lots. The paying of premiums had several disadvantages. Since they varied among dealers, information as to actual settling prices was not available to receivers or shippers as a whole. Furthermore, premium business removed increasing quantities of products from the field of open trading and thus narrowed the coverage of that type of business which wholesale quotations represented. The practice was also responsible for increasing misunderstanding regarding market quotations and for a tendency on the part of some interests to lack confidence in market quotations generally.

Jobbing Prices: It has not been the general practice to report jobbing prices, and for the most part, they are not of record. Jobbing prices have usually been nothing more nor less than uniform mark-ups over wholesale prices, depending upon brands, charges for credit accounts, and other services rendered by jobbing distributors.

Retail Prices: The widest variation of all in prices will be found in retail stores, and results from type of store, location, brands, grades, and other conditions. These, and the impracticability of adequate coverage, are reasons why retail prices are rarely reported by FDA.

#### Pre-War Basis of Reporting Wholesale Prices

Prior to the inauguration of price control, published wholesale prices applied to open-market sales only. This included goods which upon arrival were sold to buyers on a strictly competitive basis, and at a price agreed upon at time of sale, rather than at some agreed differential over a published or to-be-published quotation. Open trading included sales on exchanges, if any, and sales on the street which fell in the above category. It did not include sales of lots made for any reason at differentials (premiums) over published quotations.

#### Maximum Price Regulations Inaugurated

The inauguration of Government maximum price control programs brought price quotation problems to the foreground. One of the first developments when price control began, was the establishment of ceiling prices by the OPA at the f.o.b. level, with designated mark-ups over f.o.b. costs for each class of distributors recognized. Because of the long standing custom in the dairy and poultry industries, whereby wholesale selling price quotations were used as a basis for settlement, the establishment of maximum prices on the f.o.b. basis rather than at the wholesale selling level temporarily caused confusion on the part of shippers and receivers. The fact was, however, that the paying of premiums to shippers over published wholesale quotations had become so prevalent that the f.o.b. prices of the OPA were substantially the same in terms of dollars and cents as previously published open market wholesale quotations.

One result of the OPA regulations was that receivers' paying prices were leveled off and premiums were eliminated. This happened because the current requirements of the Government for military and other purposes kept absorbing such large quantities of dairy and poultry products that civilian supplies were relatively short, the result of which upon prices was that they held generally at ceiling levels. The purpose of the maximum price regulations, of course, was merely to prevent prices from exceeding certain fixed maximum points. Whether



the situation with respect to payment of premiums would have been different had supplies been such that prevailing prices were below ceiling, is a matter of conjecture. In the case of butter, the Government support prices and ceiling prices were the same, and premiums could not be paid unless this was done indirectly and in violation of the OPA regulations.

#### Subsidy on Cheese

On December 1, 1942, a subsidy program on American Cheddar cheese became effective. Under this program, which is to extend through June 1944, the Department of Agriculture buys cheese delivered by factories on the basis of 27 cents per pound, Plymouth, Wis., and sells it back to factories at  $23\frac{1}{4}$  cents per pound. No physical transfer is involved. The OPA ceiling price for cheese delivered f.o.b. Wisconsin points is  $23\frac{1}{4}$  cents; the difference between this and the support price of 27 cents being covered by a subsidy payment of  $3\frac{3}{4}$  cents. Under this arrangement, there was no change in market prices nor prices to consumers, but net prices to factories were increased.

#### Butter Price Roll Back

In June 1943, the price of butter was rolled back approximately 10 percent by Amendment 15 to MPR 289 of the OPA. In order to prevent the resulting lower market and consumer prices from having an adverse effect on production, provision was made for subsidy payments to processors. These payments began June 1. Selling prices of creameries were reduced 5 cents beginning June 4, wholesale prices in the markets by the same amount beginning June 5, and retail prices  $5\frac{1}{2}$  cents on June 10. This operation differed from the cheese subsidy in that prices paid producers by butter manufacturing plants remained unchanged, while wholesale prices of butter in terminal markets and prices to consumers were reduced. In the case of cheese, factory (producer) prices were raised, but market quotations continued unchanged, as did also prices to consumers.

#### Changes in Types of Distribution

Introduction of the OPA maximum price regulations on butter, cheese, eggs, and poultry brought about numerous shifts in the types of business carried on by wholesale receivers. As first drawn up, the regulations permitted no margin for wholesale distributors as such. Thus, there was a tendency for dealers whose business had been strictly wholesale, to shift over to a jobbing business, i.e., supplying retail trade which in the larger markets was formerly handled almost entirely by jobbers. In order to do this, many adjustments were necessary, since most strictly wholesale receivers did not have equipment for repackaging, nor did they have established retail outlets.

In the case of butter, it became necessary to install printing and packaging equipment or to make arrangements for having such work done by local firms specializing in these operations. Some receivers were able to arrange for shipments of print butter, instead of bulk butter in tubs or boxes. As this situation developed, established jobbers found increasing competition in their direct country buying, and those who depended entirely or in part upon wholesale receivers for supplies, found increasing difficulty in obtaining butter from these sources. On the selling end there was increased competition. After a period, OPA modified the maximum price regulation to permit a wholesale mark-up, but since supplies on the whole had become scarce, the shift took a more or less permanent form. The net result of this from a price-reporting standpoint, was a further decrease in the volume of wholesale trading.



### Package Differentials

Over a period of years numerous changes occur in types of packages reaching distributing markets. This tendency increased during the war period on account of the scarcity of certain package materials. Previously, most wholesale trading in butter was bulk package goods, but after price control was inaugurated, and as supplies became shorter, all types of packages and packaging in common use were included in wholesale trading. Goods moved freely in whatever form they were available. Frequently it was impossible to report prices continuously for a uniform type of package, except on a "nominal" basis. Therefore, when records show that prices were reported irregularly for given grades or packages, it was because actual sales varied from day to day. Despite the disadvantages of such a situation to those who had need for a continuous price series, there was an advantage to shippers, receivers, distributors, and even Government agencies, in that information was provided regarding current conditions and the nature and extent of wholesale trading.

### Nominal Prices

During part of the period following the announcement of the OPA temporary maximum price order and the issuance of the permanent order, butter prices were reported on a nominal basis, i.e., prices were those at which butter would theoretically have changed hands had there been sales. While the reporting of nominal prices is not the practice of FDA market reporters, this seemed justified because of the OPA ceiling prices in effect on the one hand and the Department of Agriculture price support program on the other. This procedure seemed advisable pending the permanent OPA order, in view of the use then being made of butter quotations as a basis for calculating prices of butterfat in cream, and in the case of several Federal milk marketing orders for calculating prices to producers for fluid milk. To have dropped wholesale quotations suddenly would have complicated the situation from the standpoint of such uses.

### Market Grade Changes

In order to provide for uniform market grades and nomenclature, OPA maximum prices were established on the basis of U. S. grades. This meant that all trading was nominally shifted to that basis, and that prices on commercial grades, formerly reported, were no longer available. The revision of U. S. butter grades also necessitated discontinuing certain former price series because of the change from numerical grades (93 score, 92 score, etc.) to letter grades (AA, A, B, C). Reference is made later to comparisons of former and present grades.

### Malpractices in Trading

Although dairy and poultry products were placed under uniform grades by the OPA regulations, there was no requirement that they be officially graded. The result was that in many cases the indications of quality on invoices, and to some extent on the goods themselves, became more or less routine. Particularly as supplies became scarcer, buyers were less critical, and there was a widespread tendency to up-grade, whereby goods were sold at higher prices than their actual quality warranted. In the case of products bought by the Government, a real grading job continued to be done, and, in order that sellers might obtain the benefit of the higher prices which price regulations permitted for the better grades, such graded products tended to be moved to Government



outlets, leaving the balance for commercial trade outlets.

Although of lower quality, goods moving into commercial channels frequently brought higher prices than officially graded products sold to the Government, because proper attention was not paid to the grading of the former. The problem of butter and eggs being sold as of higher grades than proper grading warrants has always existed to some extent, but now it is greatly magnified. Market reporters were in the position of knowing that the practice existed, but on the other hand, invoices of record and the willingness of acceptance on the part of buyers, supported information relating to price-quality relationships which they secured from both buyers and sellers covering such commercial sales. One of the inevitable conditions which always accompanies a scarcity of supplies was operating, namely, less strict adherence to grading standards. Even consumers recognized this. The only apparent remedy for such a condition would be compulsory grading, weighing, and labeling. That was and is impractical, if not impossible, for all products moving in commerce.

#### Accuracy of Price Information

What can be said regarding the accuracy of price information under conditions such as those mentioned in the foregoing? Obviously, such a situation was not one to be desired. On the other hand, it was a reality and had to be met as such in a practical way. It might be argued that under such conditions price information was incomplete and inaccurate, and should have been discontinued. That would have meant denying to producers and shippers all information except that relating to ceiling prices. There would have been no information if or when prevailing prices were below ceiling, or when above, should the latter occur. There would have been no definite indications of changes in the relative positions of various grades, classes, types of packages, etc. There would, in fact, have been a lack of the information customarily used by different industry groups in making settlements for sales and purchases, and for other purposes.

Except when current prices were at ceiling levels, OPA maximum prices would not serve these purposes. Had prices been fixed and subject to no change, the situation would have been somewhat different, but even in the case of butter where ceiling prices and support prices coincided, current price reports served to reflect shifts in qualities and packages available on markets at stated times. On eggs and poultry, the situation was different, because ceiling prices and support prices were not the same, and thus current reports revealed actual prevailing values as they changed from time to time. The measuring of price-quality relationships, is difficult when up-grading or up-weighing takes place, if any such relationships actually exist.

Under the above conditions, prices reported represented the best information available in the absence of a tight system whereby all products would have to be officially graded and weighed, all products in all outlets, sold under labeled official grades and weights, and complete sales records furnished to official market reporters. Aside from this being impractical from the standpoint of timeliness, operation, personnel, and cost, there is no assurance that complications of one sort or another would not have developed to influence the absolute accuracy of information which might be thus assembled.

#### Precautions in Using Price Information

More so than under normal conditions, precaution will need to be observed in using price data assembled during the present war emergency period.



In brief, this emphasizes the necessity of understanding the nature and source of price information. A few of the more important points to be observed are noted below.

Knowledge of Previous Data: Obviously, before comparing any new price series with a former series, it is necessary to understand both. Markets have to be reported according to types of information available, and this is determined by trading practices. In the past, it has not been possible to report prices in all markets on a uniform basis insofar as types of transactions are concerned. In some markets, wholesale prices were reported, in others f.o.b. prices, and occasionally only jobbing price information was available. Similarly, grades and grade requirements may differ. If comparisons of prices are to be made merely from the standpoint of trends, it is less important to check into the types of transactions which prices in different markets represent, for usually trends of all prices on a given commodity follow the same course. There are exceptions to this, particularly with reference to short periods. If comparisons of price levels are being made, however, it is important to know what prices represent.

Commercial Grade Terminology: Over a long period of years, it will be found that prices of butter or eggs have been reported under changing grade terminology. Furthermore, there are instances where grade names were the same in different markets, but the grade requirements were not alike. Here again, if comparisons are to be made of price levels in one market as compared with others, it should be done on a comparable quality grade basis.

"Quotations" vs. Actual Selling Prices: In practically all cities where buyers are located, market pages of the local newspapers carry price quotations. Frequently these are furnished by someone in the local trade, or by an exchange, if such an organization exists. In many cases, these quotations have represented principally the basis used for settlement. They may or may not have reflected actual dollars-and-cents buying and selling prices, being subject to discounts or the addition of premiums, depending upon individual buyer-seller understandings. On several of the West coast exchanges, quotations issued on the basis of the last sale, bid, or offer, have not always coincided with prices which represented more complete coverage. In the eastern markets, commercial quotations issued early in the day have frequently been different than FDA prices issued later in the day, more particularly when there was a notable change in the tone of trading as the day progressed. Insofar as it has been possible to do so, prices reported by FDA have represented, and will continue to represent actual purchases in the case of f.o.b. prices, and actual sales in the case of wholesale prices.

Irregular Price Series: Except in cases where it is an accepted practice to publish "nominal" prices, price series may be interrupted owing to lack of trading, changes in seasonal marketings, and other factors. This is true on such products as turkeys, storage packed eggs, and refrigerator eggs. The changes in Thanksgiving dates in 1940 and 1941 are other examples of times when prices were available at different times than in other years. Under such conditions, prices could be interpolated, but this is a statistical rather than a market reporting job.

#### Market Grade Comparisons and Prices

As previously mentioned, the introduction of OPA price regulations was accompanied by a regulation requiring that products be sold on all markets

according to designated grades. In some cases, this meant the abandonment of previously used commercial grades, the discontinuance of price quotations on such grades, and the introduction of new grades and terminology. For the benefit of those who use price data, the charts below are designed to indicate in a general way, the comparisons between grades now required to be used, and those formerly used in commercial trading, and to serve as a guide in comparing present and former price series. At best, they are only approximations, and are not intended to show technical grade relationships nor relative amounts of products marketed under the various grades.

#### Butter

Present Grades	AA		A	B	C		Cooking Grade
Former Grades	93	92	91	90	89	88	87

#### Cheese

Present Grades	AA		A	B	C
Former Grades	Fancy		No. 1	No. 2	No. 3

#### Eggs

Present Grades		Specials	Extras	Standards	Current Receipts
Former Grades	New York	Extra Fancy		Extras	Firsts
	Chicago	Extras Selected Marks		Extra Fancy	Firsts
	Phila.	Specials		Extras	Standards
	Boston	Specials		Western Hennerly	Extra Firsts
	San Fran.	AA	A	B	C

(Prices of "Checks" and "Dirties" are comparable in all periods.)

Types of wholesale price information which have appeared in FDA market reports prior to and since the inauguration of OPA maximum price regulations are indicated in the following:

#### Butter:

(1) Prior to October 1942. - Prior to the inauguration of the price-control program of the Office of Price Administration, wholesale prices published on FDA market reports applied to open trading sales only. They did not include sales of premium or special marks. (See page 2)

(2) October - December, incl., 1942. - Wholesale prices published during this period were somewhat nominal. Following the issuance of the OPA temporary Order No. 22 on October 5, and until the permanent order (MPR 289) became effective December 30, prices continued on the same dollars-and-cents basis as formerly.

With the temporary order in effect, however, supplies shortened owing to Government buying, later to the WPB order "freezing" stocks in 35 cities,



and the further fact that the Department of Agriculture had announced that butter sales would be supported at prices which were the same as OPA ceilings. Published prices were somewhat on a nominal basis. This was particularly true from the standpoint of type of package to which published prices applied, for they related to butter in tubs at a time when changes in shipping containers were occurring, the principal shift being from wooden tubs to fiber boxes. The OPA temporary order established ceilings for individual operators at the highest prices prevailing during the period from September 28 to October 3, and was to cover a 60-day period. This was later extended until December 30.

(3) Since January 1, 1943. - The OPA permanent order, MPR 289, established fixed dollars-and-cents base quotations on numerical scores for three different areas as follows: New York, Philadelphia, and Boston; Chicago; San Francisco, Los Angeles, Portland, and Seattle. The order did not indicate what type of package these quotations applied to, that is, whether tubs or fiber boxes, but stated that manufacturers and wholesalers should continue the discounts, allowances, or other price differentials customarily given. The practice of dealers quoting prices in relation to market quotations was thus preserved, with only the requirement that the OPA announced quotations be the base.

The relative shortages of butter during the period resulted in limited open trading, and since this was an opportune time to broaden the coverage of wholesale trading (to include all types of such trading instead of open transactions only), FDA announced a change in the basis of reporting wholesale prices, whereby all types of wholesale trading would be included, namely, open sales and special marks at agreed premiums over published quotations, excluding only those sales involving long-time credit or unusual services. During the early part of this period, FDA reports carried OPA base quotations, for information purposes only. With the broader coverage, wholesale prices reported by FDA market reporters, who continued the usual reporting procedure, began to show a range.

On February 16, amendment 4 to MPR 289 became effective, changing grade designations in line with revised official grades of the FDA. At this time a slight adjustment of prices was made in the order as between grades and markets, and the announced maximum prices were made to apply to bulk butter in fiber boxes or other shipping containers, except wooden tubs. This amendment established permissible mark-ups over the base quotations for other types of packages than bulk fiber boxes. It did not provide margins for wholesale distributors, and it was this condition which accounted partly for the previously noted tendency of wholesalers to change their type of business.

On April 2, amendment 11 to MPR 289 established mark-ups over costs f.o.b. market for different-size sales, regardless of type of package, making it possible for trading on a wholesale basis to again take place. On June 7, 1943, wholesale prices were rolled back 5 cents per pound as a result of amendment 15 to MPR 289.

(4) Future Basis of Wholesale Prices. - At the present time, it is proposed to continue full coverage of all types of wholesale trading in FDA reports when conditions return to normal. This may mean that wider ranges will be shown for individual grades. In the event of unusually wide ranges, it may be practical to supplement price ranges with a "mostly" or "average" price.

Eggs:

New York and Chicago wholesale quotations on eggs have been used more or less widely in the past as a basis for settlements between shippers and receivers. FDA began reporting wholesale egg prices at New York in July 1943 and at Chicago in June 1942. In both cases, an attempt has been made to cover the complete range of wholesale trading. This same plan has applied at other markets for which FDA prices are available over much longer periods of time. Maximum egg prices were first established by OPA under Temporary Order No. 22, effective October 5, which was superseded on March 6, 1943, by Maximum Price Regulation 333. The former fixed prices at individual dealers' highest levels during the period from September to October 2, 1942, inclusive, while the latter fixed uniform dollars-and-cents prices on individual grades for specific areas.

Cheese:

The plan of reporting cheese prices has not been changed. Over considerable periods of time no wholesale cheese prices have been reported, but this is because relatively little cheese has changed hands on the wholesale market since the heavy Government buying program has been under way. Price information, available after the maximum price regulation became effective, reflected OPA published ceiling prices for Wisconsin delivery plus permitted differentials for location. The Department of Agriculture subsidy program which became operative December 1, 1942, did not change the level of market prices, as the subsidy was paid direct to factories. (See page 4.)

Live Poultry:

All prices reported on live poultry have been continued on the original basis, namely, either f.o.b. prices or wholesale prices, according to plans followed in different markets.

Cream, Evaporated Milk:

All prices reported on cream and evaporated milk, have been and still are wholesale selling prices in local markets.

Casein:

Prices of casein reported at New York City are local wholesale selling prices. Casein prices carried on the San Francisco report, are those paid f.o.b. factory for unground casein.